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THE CHADIAN PRIVATE SECTOR

Synthesis Report

November, 1992

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Synthesis Report

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I. INTRODUCTION

During the course of its post-colonial history, Chad's private sector has been characterized by its resiliency under extreme difficulties. Chad, one of the world's poorest countries, has greatly suffered from its turbulent past. Landlocked in the center of Africa, the country incorporates a wide variety of landscapes and peoples. Due to Chad's political conflicts and physical handicaps, economic progress has proven particularly difficult. Life expectancy, education, and health standards are all below the norms, even those for Africa. The absence of developed infrastructure contributes to Chad's isolation from modern markets and trade flows. Fragile legal and political systems maintain the economic malaise through their ineffectiveness and unpredictability.

For many Chadians, participation in both formal and informal activities within the private sector has been the only means of survival during periods of economic trouble and political instability. Private sector participants range from individuals transacting one-time deals to meet daily needs, to quasi-private parastatal entities that constitute the essence of the formal economy. Found between these extremes is the successful trader engaging, for example, in cross-border livestock trade through traditional, unregulated channels. In general, however, the private sector remains relatively underdeveloped and operates according to traditional and colonial practices inherited from years of regional trade. Ties to the global market arise primarily from relationships and patterns established during the colonial era.

It is commonly recognized that Chad must revitalize its private sector to encourage prosperous and sustainable development of the nation. To this end, the Chadian government, in conjunction with external donor, bilateral, and multilateral agencies, has initiated the process to promote the private sector. Thus, a national seminar on this topic was held in N'Djamena at the end of May 1991. Participants included Chadian businesspeople, government officials, and representatives from international institutions and from partner countries. Government representatives pledged to uphold state non-interference in the economy. This commitment was hailed by the private sector and donor representatives. Recommendations for carrying out this objective were made by private sector participants based on the findings of five sub-commissions which had been established to prepare the seminar.

The recommendations advocated reducing the state's weight in the economy and its role as an economic actor and, more specifically, limiting its field of

administrative, legal, regulatory, and fiscal action. The principal being that all governmental action must encourage economic development and private sector expansion, rather than hinder it with heavy-handed and arbitrary intervention.

As an integral part of the process to develop and promote Chad's private sector, a donor roundtable was proposed as a subsequent step toward defining an institutional framework particularly favorable to expanding this sector. To prepare for this roundtable, the Chadian Government appointed a High Committee and a Technical Assistance Cell (CTA).

In preparation for the roundtable, which will be held in N'Djamena on December 11 - 12, 1992, this report was conceived to serve as a synthesizing tool pulling together data and thorough observations on Chad's economic operating environment. In addition, the present report served as a reference during a series of working sessions between the consulting team and the CTA.

II. REVIEW OF CHAD'S PRIVATE SECTOR

2.1 Major Influences

2.1.1 OVERCOMING THE COLONIAL LEGACY

The relative underdevelopment of Chad's private sector is the result many enduring factors. Of notable influence are factors which play off of each other, such as the obsolescence of infrastructure and of educational facilities and the regressive fiscal system which is sustained under an antiquated, cumbersome administrative code. Post-colonial political turbulence left the private sector underdeveloped with little investment in physical capital. The economy lacked any significant industrial development, with the secondary sector accounting for only 15% of GDP.¹ The constant preoccupation of successive Chadian governments to augment its resources to accelerate development drove them to impose high rates of taxation, to arbitrarily regulate the formal sector, and to create parastatal enterprises thus accentuating the economic difficulties of the private sector.

2.1.2 ARMED CONFLICT

Years of violent conflict have created a climate governed by the law of the strongest and today marked by abuses committed by unsupervised para-militaries. Trade and traditional commercial exchanges, cultivated over centuries, remain the surest economic activities for private sector participants. Participation in modern international trade is nearly impossible due to elevated transaction costs. Formal private sector participants have remained suspicious, engaging in only sure and informal activities. Long-term investments are not made in an economy ravaged by civil war.

¹ From data provided to the IRIS team in interviews with Chadian authorities, N'Djamena, July 1992 (see Exhibit A-9).

Chad has been convulsed by armed conflict throughout its long history and, more recently, since 1979. The lack of a peaceful climate has created a void for private sector development. This void has been partially filled by the creation of state-owned and parastatal enterprises which operate in some of the most important sectors of the economy (cotton, tobacco, beer, etc.). The entrepreneurial spirit, which has permitted a large number of Chadians to survive these tumultuous periods, must be encouraged. Without it, Chad will remain mired in a difficult economic situation.

2.2 Characteristics of Chad's Private Sector

2.2.1 A LITTLE DEVELOPED PRIVATE SECTOR

Chad's private sector reflects the principle characteristics of the country. In fact, Chad is poor and isolated, and figures among the least advanced countries on the African continent. The country depends on a very limited economy based on agriculture and livestock husbandry. Foreign assistance, which is the principal funding source for development projects, is regularly contributed to the state's investment and operating budget. In 1989, the unilateral transfer of exterior aid represented approximately 62% of GDP, down from 84% in 1988.

2.2.2 QUASI-LIBERAL POLICIES OF THE PRIVATE SECTOR

Since independence, Chad's successive governments have maintained a quasi-liberal policy approach to private enterprise by encouraging private investment and by allowing repatriation of profits. In this manner, despite its difficulties, Chad has profited from approximately \$10.67 million dollars in net foreign direct investment since 1986.² Nevertheless, public investment still represents the bulk of gross fixed capital formation, with the private sector contributing only .5% of GDP in 1990.³ The successive governments became economic actors by circumstance to protect designated vital national interests and national security. Unlike many other African countries, government intervention in Chad's economy was not necessarily motivated by ideological reasons. Rather, the need for additional fiscal revenue to pay for government operations and investments prompted the state to become more regressive in its imposition and to become more active in the economy by means of state-owned enterprises.

² UNDP/World Bank, "African Development Indicators," 1992, p.70 (see Exhibit A-17).

³ UNDP/World Bank, "African Development Indicators," 1992, p. 25.

2.2.3 PRINCIPAL COMPONENTS OF THE PRIVATE SECTOR

Agriculture and livestock husbandry are the principal domains of private sector activity. Chad's economic growth and development remains directly tied to the performance of these two sectors, which constituted 38% of GDP in 1990, and employed 75 % of the active male population and nearly 85 % of the active female population.⁴ Production and processing of raw materials, or services related to these activities, employ the majority of the active population in the private sector. Modern production facilities are concentrated in N'Djamena and in the southern part of the country in Moundou and Sarh. Cotton is Chad's principal product. Within a primarily traditional and informal framework, livestock husbandry, specifically bovine, comes next in terms of economic importance. Fishing is another potentially important area to the economy, although it is practiced as an artisanal activity dominated by traditional methods of production, processing, and marketing .

2.2.4 A BREAK-DOWN OF CHAD'S PRIVATE SECTOR

Chad's private sector can be broken down into four categories: 1) state-owned and parastatal enterprises that benefit the most from available bank credits and from protected markets, often in partnership with private French business interests; 2) traditional traders, merchants, manufacturers, craftsmen, transport providers, and other small to medium sized business owners who constitute the majority of the formal private sector; 3) a constantly fluctuating number of informal sector participants, who are not quantifiable and not legally recognized, composed of numerous former formal sector participants and of middlemen trying to maintain a subsistence existence; and lastly, 4) peasants farming for subsistence and/or cash crops, pastoralists, livestock traders, and fishermen on Lake Chad and the Chari, Logone, and other rivers.

2.2.5 INDUSTRIAL ACTIVITY DOMINATED BY THE PRIVATE SECTOR

Within the industrial sector, the transformation of agricultural products accounts for most production. Chad mainly produces sugar, textiles, soap and cooking oils, tobacco products, non-alcoholic drinks, beer, meat and hides, and

⁴ UNDP/World Bank, "African Development Indicators" (Washington, DC: UNDP/World Bank, 1992), p. 285.

agricultural equipment. State-owned and parastatal enterprises, such as Cotonchad, Sonasut, MCT, etc., account for the bulk of production. The informal private sector plays an active role in producing industrial goods, essentially in areas such as farming tools and implements, consumer household goods and ready-to-eat foods.

2.2.6 NATURAL RESOURCES DOMINATED BY OIL

Another important private sector element includes trade in gum arabic which is collected by traditional methods and exported in its unprocessed state. Gum arabic could play an important role in promoting Chad's exports, especially as there exists local private exporters who have succeeded in identifying their external markets. Their success could be consolidated with the implementation of a simpler policy for exporting agricultural products.

Beyond gum arabic, petrol and natron (sodium carbonate) could have a positive impact on Chad's trade balance. Natron is gathered from around Lake Chad and in wadis of the Kanem Prefecture. Traditional trading channels currently facilitate natron's arrival on the local market, where it is used for a variety of purposes including skin tanning, soap production) and as an animal feed additive. Natron is mainly exported, quasi-clandestinely, to Nigeria.⁵

Oil has been discovered near Lake Chad and also in the southern part of the country. World Bank financing will permit the construction of a micro-refinery in Sedigi which will be linked by pipeline to N'Djamena. The goal of this construction is to ensure Chad's energy self-sufficiency thereby reducing the country's current trade deficit. In the past, oil import costs represented nearly 10% of GDP.⁶

⁵ Thomas Collelo, ed., "Chad, A Country Study" (Washington, DC: Library of Congress, 1990), p. 11.

⁶ World Bank, "Country Briefs" (Washington, DC: World Bank, Dec. 1990), p. 72.

A consortium composed of American oil companies, Exxon, Shell, and Chevron, hold 49% of the assets of SEERAT (Société d'Etude et d'Exploitation de la Raffinerie du Tchad) which is responsible for developing the refinery. The balance of SEERAT's shares are held by the Chadian government. SEERAT will be a large addition to the number of public entities in Chad. Within the framework of the state disengagement program, negotiations are under way for the resale of a portion of SEERAT's assets held by the American consortium to France's Elf Aquitaine.

2.2.7 TWO PRINCIPAL COMPONENTS: THE FORMAL AND THE INFORMAL

As in most African economies, Chad's private sector is divided into two sub-sectors: the formal and the informal. These two sectors behave differently in the marketplace and vary in their respective contributions to the gross national product. Each segment of the private sector responds in its own and often suboptimal manner to the economic and political environment.

Chad's formal sector is less important than the informal sector in terms of providing employment and contributing to GDP.⁷ The leading fourteen formal sector enterprises in Chad employed a combined total of 4,551 people in 1990.⁸ This sector is mostly composed of public and parastatal enterprises which are jointly owned by the government and private investors. The formal sector is the primary taxpayer in the country, as its activities are more easily monitored by government authorities. A perfect example of this phenomenon is Cotonchad, the parastatal cotton producer. The waxing and waning of Cotonchad's economic fortunes has a major impact on government revenues, with the cotton industry contributing some 20% of total fiscal revenues.⁹ During the early and mid 1980s, Cotonchad's deteriorating performance had serious consequences for Chadian government revenues.

On the fringe of the formal sector, there are many gray private sector operators participating in informal sector activities. In Chad's current economic and political environment, private sector participants acquire a competitive advantage by working

⁷ Jean-Francois Hennart, "The Informal Sector in Chad" (College Park, MD: IRIS Center, University of MD, 1991), p. 22; originally from: Henry Penhais, "La Promotion du Secteur Informel Tchadien: Bilan-Diagnostic et Propositions d'Appui," BIT, 1990.

⁸ Ibid, p. 26, Table 6.

⁹ World Bank, "Country Briefs," p. 68.

outside the legal and regulatory system established by the Public Administration. Some studies conducted during recent years determined that the informal sector significantly contributes to the economy where more than two-thirds of the GDP are of traditional origin.¹⁰ To maintain this performance, the informal sector works to remain invisible to the government who would not hesitate to impose further taxes on this sector if there existed an effective means for direct tax collection. The loss of fiscal revenues to the government as a result of the traditional sector's avoidance of formality is compensated by the ready provision of goods and services which otherwise would not be available in the existing inhospitable, official business environment.

2.2.8 INTERNATIONAL TRADE TIES

The private sector's international economic ties are of two kinds: traditional activities with neighboring countries and newer links with major industrialized countries and also with China. France figures prominently in both exports and imports, accounting for nearly 52% of Chad's imports and receiving 16% of Chad's exports in 1990." West Germany was Chad's largest export market in 1990, purchasing 24% of Chad's export products." Of its neighboring countries, Cameroon, Nigeria, and the Central African Republic (CAR) figure most prominently in officially recorded trade with Chad. Nigeria is the principal destination for unofficial livestock and fish trade flows.

Chad has been consistently running a negative trade balance partly due to poor cotton production and marketing problems and to constant increases in unofficial livestock and fish sales. The exact size of this unofficial international agricultural trade is unrecorded; nonetheless, it is substantial and represents lost government revenue.

¹⁰ Ilcnnart, "The Informal Sector in Chad," p. 4; originally from: Henry Penhuis, "La Promotion du Secteur Enformel Tchadien: Bilan-Diagnostic et Propositions d' Appui," BIT, 1990.

¹¹ The Economist Intelligence Unit, "Cameroon, CAR, Chad Country Profile 1991-1992" (London: Business International Limited, 1992), p.75.

¹² Ibid.

III. CONSTRAINTS TO ENTREPRENEURIAL ACTIVITY

3.1 Constraints Related to the Economic Situation

3.1.1 DIFFICULT MACROECONOMIC CONDITIONS

Chad's current economic climate is characterized by tentative advances that are constantly restrained by recurring problems which hinder net positive growth. Erratic but real GDP growth has occurred since 1987. A continuing trade deficit, very low tax receipts, and negative domestic savings restrain the government's ability to consolidate positive GDP growth. Inflation remained relatively low, between 2 % and 3 % , and the real growth rate attained a remarkable 8.4% in 1991.¹³ Assuming the political climate improves, the inflation rate is expected to remain around 3% and real economic growth should reach 3.5 % .¹⁴ An estimated steady population growth of 2.7% immediately absorbs all surplus output generated by economic growth.¹⁵ Per capita consumption remains the lowest among comparable African countries totalling only \$224 in 1990.¹⁶ Chad's GDP in constant prices also trails all other comparable African countries at \$993 million in 1990.¹⁷ In addition, political instability during recent years, as well as the fragility of political and administrative institutions, further complicate an already difficult economic situation. This state of affairs is manifested in an increase in actual government expenditures which perpetuates the on-going fiscal deficit and impedes private sector access to financial resources in an already limited domestic capital market. Financial eviction of the private sector by the public sector is a principal cause of difficulties linked to the under-capitalization of Chad's productive sector.

¹³ Ibid.

¹⁴ IRIS Team discussions with BEAC officials, N'Djamena, Chad, July 1992.

¹⁵ UNDP, "Human Development Report 1992," p.s 170-1.

¹⁶ UNDP/World Bank, "African Development Indicators," 1992, p.33.

¹⁷ Ibid, p.16.

The rate of external indebtedness and the accumulation of overdue internal debt payments are tarnishing Chad's financial reputation and evidencing the country's insolvency on international financial markets. Nevertheless, Chad's debt-service ratio remains favorable at 9.1% given that external debt obligation represent 43.8% of GDP.¹⁸ A large portion of Chad's external debt is public and is matched by concessional terms.

3.1.2 INSOLVENCY AND NONLIQUIDITY OF PUBLIC FINANCES

Persistent government insolvency contributes to an economic climate in which private sector participants cannot expect any financial encouragement to explore relatively riskier activities that are potentially more profitable to the Chadian collective. In addition to being left to their own devices, these private sector participants, both formal and informal, are confronted with government seizure of the majority of the national surplus at the expense of the private sector. Moreover, the government consumed 22.9% of GDP in 1990. This percentage is among the highest in black Africa compared to Mali at 11%, Cameroon at 11.7%, and Burkina Faso at 12.9%.

Chad's public finances are almost wholly dependent upon foreign assistance. The government is under pressure from the International Monetary Fund to reduce public expenditures and to increase fiscal revenue within the framework of a structural adjustment program. Despite such influences, the budget deficit continues to grow larger each year, primarily due to military spending. In 1989, official military expenditures accounted for 3.8 % of GNP and 23 % of all imports."

General government consumption has increased appreciably, growing from 7.8 % of GDP in 1982 to 22.9% in 1990." Meager revenues, endless infrastructure projects, social welfare, and security needs constantly increase the commitments of a growingly indebted government. Since 1987 the government's current account deficit has increased 260% .²¹ For the foreseeable future, Chad will remain economically dependent upon the largesse of international donors.

¹⁸ Ibid.

¹⁹ UNDP, "Human Development Report 1992," p.s 166-7.

²⁰ UNDP/World Bank, "African Development Indicators," 1992, p.22.

²¹ Data provided to the IRIS team in interviews with Chadian authorities, N'Djamena, July 1992.

Recent attempts to reduce governmental arrears by trimming government employees' salaries have been ill-received. General strikes to protest salary reductions in the public and private sectors have, in theory, lasted up to 90 days. Although this climate has accentuated uncertainty about the conduct of all economic activity, it is not certain that a structural adjustment program would be easily implemented without a plan to lighten its social impact on the population.

Reduction of public expenditures and, therefore, of the state's budget deficit is an indispensable condition for the success of a plan promoting the private sector. Such a diminution would lighten the growing pressure which pushes the government to search further and further for revenue sources this notwithstanding its constraining impact on the "hen that lays the golden egg"-the private sector.

3.1.3 PUBLIC FINANCE DEFICIT

The weight of public financing remains a complex and constricting burden on private sector development. Chad possesses one of the weakest tax collection efforts in Africa, gathering only 9% of GNP in 1989²² from a combination of customs revenues, taxes, and non-tax sources. Government revenues are generated roughly equally from: (1) taxes on goods and services yielding 29%; (2) taxes on incomes and profits also generating a 29% share; and (3) non-fiscal revenues accounting for 17% .²³ Foreign aid, which represented 25% of GNP in 1988, helps to meet remaining financial obligations.”

Private sector weakness is distinguishable by the very limited number of formal enterprises. The formal sector is predominantly composed of firms unable to “escape” to the informal sector.” These few businesses are quite vulnerable and are subjected to heavier taxes. Their limited number narrows the tax base and heavies the tax burden on the modern sector. The majority of firms in the formal sector are parastatals. The five parastatals bearing the brunt of the taxation burden in Chad are Cotonchad, MCT, BdL, STT, and Sonasut. The tax burden, in order of importance, is carried by taxes on international trade (import-export duties), excise taxes, corporate taxes, and turnover taxes.²⁶

The preponderant portion of government revenue generation falls onto those firms that are unable to withdraw from the grasp of government agents. A vicious circle is created where low revenue receipts increase the pressure upon the government to plug budgetary holes, with increases in marginal tax imposition then weighing essentially on a limited fiscal population and prompting firms on the periphery to return to the informal sector to escape taxes. This fiscal exodus aggravates the initial hole thus confirming the adage that “taxes kill taxes.”

²² World Bank, “Country Briefs,” p.70.

²³ IRIS Team discussions with BEAC, N'Djamena, Chad in July 1992.

²⁴ UNDP/World Bank, “African Development Indicators, ” 1992, p.298.

²⁵ Hennart, pp. 5-9.

²⁶ Collelo, “Chad, A Country Study,” p. 128.

3.1.4 CUSTOMS FRAUD ACCENTUATES THE BUDGET DEFICIT

Customs fraud in Chad has a direct impact on the weak financial structure of the public budget. Customs collections have the potential to be a major revenue source for Chad. Although a thorough assessment of cross-border trade remains to be made (such a study is foreseen by the IRIS team under a USAID contact), this potential is currently untapped due to military and para-military ("combatant") involvement in lucrative fraud activities, such as illegal merchandise imports, which undermine customs laws.

The involvement of military and "para-military" forces at customs checkpoints since 1990 has led to a significant increase in fraudulent customs declarations and to reduced customs receipts collected by the public Treasury. The situation is problematic and remains an extremely sensitive and highly political issue. The Chadian government has created a special mixed brigade to combat customs fraud. Such a solution is subjective because its effectiveness is limited and depends on the political support it will receive from the highest level of Chad's political hierarchy. It is simpler and more effective to undertake institutional measures which attack the causes of fraud at their origin confronting the question of combatants or reforming the judicial machine so that it is strong enough to defend fraud victims and to prosecute defrauders regardless of their political pull. Institutional reform could go as far as partial privatization of customs services, achievable by establishing a rental contract for an independent business to manage customs activities. This business would be frequently monitored and would be subject to a code of requirements clearly defined from the start. Experiments with such reforms have already proven somewhat successful in countries such as Thailand.

The second problem arises from the high volume of currently unrecorded cross-border economic activity. The length of Chad's borders precludes a physical presence at all crossing points. This explains the permeability of the frontiers and facilitates the blossoming of informal import-export trade. The incentive to bypass official channels is accentuated by the overvaluation of the CFA franc in relation to the Nigerian naira. Today the CFA franc is unanimously considered an overvalued currency. From Chad's perspective, this *overvaluation* confers a comparative price advantage on Nigerian products priced in naira. Generally, goods are purchased in Nigeria with the strong CFA franc; then they are brought back to Chad by traditional trade routes which bypass customs and are sold on the local market at prices defying all competition from national Chadian producers or formal sector distributors. The resulting loss in market shares will continuously incite the crossover from the formal to the informal sector as long as the parity of a good purchased in naira remains substantially higher than a good purchased in CFA francs in Chad.

3.1.5 MARKET SIZE AND ISOLATION

Chad is stricken by a universal African problem—limited, inefficient, and isolated local markets. The dispersion of population and lack of dependable, inexpensive transport explains the isolation of Chadian markets. Chad lacks the mass market demand necessary to develop economies of scale for a sophisticated manufacturing sector. With a population of only 5.8 million inhabitants dispersed throughout the country, Chad's market precludes the growth of activities which license lower cost mass production, as is the case in neighboring Nigeria.

Despite the greatest concentrations of people in the southern portion of the country, no single city is sufficiently dense to constitute a base market adequate for promoting growth to the critical production size. N'Djamena is the largest city with approximately 600,000 inhabitants. The cities of Abeche, Moundou, and Sarh have close to 100,000 inhabitants each. None of these cities are easily accessible from one to the other. In addition, the quasi-absence of base infrastructure makes modernization of the economy an uphill task. The challenge lies in linking existing markets so that they function as part of a greater national market permitting mass production. Expanding existing ties between different Chadian markets and neighboring countries is also difficult for the same reasons that hinder the creation of links between interior markets. Developing infrastructure inside the country and along its frontiers are elements of an excessively costly program.

3.1.6 LOW PURCHASING POWER

In addition to isolated interior markets, weak purchasing power in Chad limits all activities related to growth-stimulating mass production. With per capita income at scarcely \$190 in 1989, the development of dynamic, modern markets providing a variety of consumer goods accessible by the average Chadian is extremely limited in the short and medium-term. Chad is a poor nation where daily survival is the principal objective of the majority. Disposable income available for the purchase of discretionary products is non-existent. Existing markets focus on traditional products and the most accessible, popular, modern products. These items are sold in traditional marketplaces and shops. Limited access to public health, and social development in general, **influences the** purchasing decisions of the population. Among the most favored products are food, clothing, education, building materials, and, to a lesser degree, transportation. According to the most recent UNDP report, the average Chadian has a life expectancy of 45.5 years and receives only 74% of the daily caloric intake requirement.²⁷

²⁷ UNDP, "Human Development Report 1992," p. 130.

3.2 Constraints Related to the Lack of Resources

3.2.1 INADEQUATE PHYSICAL INFRASTRUCTURE

One of the fundamental constraints facing the Chadian private sector is the extremely low level of physical infrastructure development within the country. The utilities, transport, and communications systems are major handicaps to the development of a favorable business climate.

Chad's electricity rates, an indicator of infrastructure modernization, are among the highest in Africa. One kilowatt costs CFAfr100/kwh in Chad compared to CFAfr 16/kwh in Nigeria.²⁸ Chadian electricity is produced by two power stations, both dependent upon imported oil. Telephone communications, shipping, and travelling are extremely expensive, difficult, and subject to major delays. All of these factors increase the cost structure of businesses, reducing their operating margin and augmenting their risk of lost and destroyed merchandise. As a result, Chadian firms must carry larger inventories of inputs and supplies to be prepared to outlive any shortages. This stockpiling also pushes up costs and doesn't always guarantee against factors which could cause irregular production.

3.2.2 LOW INVESTMENT RATES

The financial impact of disadvantages felt by Chad's private sector due to insufficient infrastructure is difficult to quantify in a direct manner. On the other hand, its impact can be discerned from the low rate of investment in both the private and public sectors. Gross domestic investment was 10.3% of GDP in 1990²⁹ and of that total the overriding majority, 9.8%, was invested by the public sector.³⁰ Chad's private sector contributed only 0.5% of GDP in 1990, compared to 13.1% in Mali, 8% in Burkina Faso,

²⁸ The Economist Intelligence Unit, "Cameroon, CAR, Chad Country Profile 1991-1992," p.69.

²⁹ UNDP/World Bank, "African Development Indicators," 1992, p. 23.

³⁰ UNDP/World Bank, "African Development Indicators," 1992, p. 24.

and 8.9% in Senegal.” Only 1% of public investment was domestically generated.³² Foreign aid was responsible for the balance. Compounding these numbers, some important long term trends show no sign of improvement. Gross national savings have remained negative for over a decade and look to remain that way.” The government’s current deficit during the past three years has increased an average 57% .³⁴

3.2.3 FINANCIAL SECTOR WEAKNESS

The impoverished state of Chad’s private sector is a factor explaining the low rate of investment in this sector. In addition, Chad’s financial sector is small and lacks the necessary resources to effectively finance private sector growth.

The financial sector is composed of the local office of the Bank of Central African States and of four commercial banks. These establishments have limited capital and few potential clients are able to fulfill normal conditions to qualify for a loan. Many of Chad’s private sector businesses have neither the capacity nor the means to keep financial statements which conform to generally accepted accounting norms. The number of depositors is also limited. Cotonchad, the largest single borrower, is also the largest depositor. The majority of Chadians eligible to use the formal banking system distrust it, fearing additional taxation or outright seizure of their deposits. The absence of banking secrecy has, during certain periods, resulted in special "war" taxes deducted directly from bank accounts by the authorities. This abuse of power has an extremely negative impact on the private sector’s predisposition toward capital accumulation.

³¹ UNDP/World Bank, “African Development Indicators,” p. 25.

³² Data provided to the IRIS team in interviews with Chadian Authorities, N’Djamena, July 1992.

³³ UNDP/World Bank, “African Development Indicators,” 1992, p. 263,

³⁴ Data provided to the IRIS team in interviews with Chadian Authorities, N’Djamena, July 1992.

The Bank of Central African States (BEAC) holds a central position in Chad's financial landscape. The commercial banks (Banque Internationale pour L'Afrique du Tchad (BIAT) which is affiliated with Meridian-Biao Bank, the Banque Tchadienne de Credit et de Dépôts (BTCD) which is affiliated with Credit Lyonnais, and the Banque Tchadienne de Développement which has just been rehabilitated with the assistance of the African Development Bank (BAD), and the newly opened Financial Bank) themselves are in a fragile state. The final fate of the Banque Internationale pour le Commerce et l'Industrie au Tchad (BICIT), and the Caisse Nationale d'Épargne (CNE) has not yet been completely defined.

The low deposit rate and the high concentration of loans to a few primary borrowers are two major problems faced by the banks and the financial system in its entirety. Three principal reasons explain the low deposit level: (1) until the end of the 1980s, real interest rates on deposits were negative not becoming positive until 1987 when the country's political stability was once again threatened by war; (2) Chad's shallow financial depth characterized by a weak monetary ratio (M2/GDP); and (3) absent depositor confidentiality. Due to these systematic problems, the BEAC is the primary depositor in Chad accounting for 60% of the total financial system deposits-deposits which only reached \$650 million in 1986."

The second constraint to Chad's financial sector is linked to the overwhelmingly publicly-oriented character of its loan portfolio. Cotonchad is the single largest recipient of available credit including two-thirds of all seasonal credits.³⁵ The Chadian government is the other preferred credit beneficiary. Their solvency and late payments have, nevertheless, limited international credit offerings to concessionary financing only. Together, Cotonchad and the government exhaust the majority of credit available in the formal financial system. The remaining credit sources within Chad's economy are of traditional origin or are destined for the economy through mechanisms like those established within the framework of the VITA project. Nevertheless, these traditional sources are limited and have very elevated transaction and account costs,

The resulting underdevelopment which penalizes Chad's financial sector translates into its inability to expand the deposit base and to finance projects developed by clients other than the five major state-owned enterprises. Only a change in these conditions would permit the financial system to play its true role as a financial

³⁵ Roger B. Jantio, "Chad Financial Sector and Private Sector Financing," (College Park: IRIS Center, University of MD, 1991), p. 2.

³⁶ Ibid.

intermediary by transforming the limited resources collected by economic agents (primarily households) into lasting employment. Financial intermediary activities can develop only with aggressive economic action by formal financial institutions with the initiation of financial liberalization measures which give rise to attractive credit interest rates and with the guarantee of banking confidentiality.

3.2.4 CHRONIC INADEQUACIES OF COMMUNICATIONS SYSTEMS

Chad's modem telecommunications system is obsolete. Four-fifths of the country's 2,500 telephone lines are in N'Djamena. All international calls are routed through Paris and are prohibitively expensive. Satellite access is limited. Chad could envision contracting with better equipped neighboring countries (Cameroon and Nigeria, for example) to have access to their telephone and electricity systems at a more reasonable price. This strategy is inevitable in so far as the large western telephone companies already have technology which permits them to sell access to their reserves in other countries at prices which defy all competition. For example, the American company AT&T offers a service called "AT&T Direct" which, when it becomes universal, would force companies like ITT to restructure or to sink.

The second function of the communication infrastructure is mail distribution which is limited to letter and package delivery in the big cities. The population relies on the National Radio Service for personal and urgent messages. Radio is the principal medium of national communication in Chad, especially shortwave radios in areas outside N'Djamena. The written press includes an official daily newspaper and some private publications such as the *N'Djamena Hebdo*.

The transportation system is the third pillar of the communication infrastructure. Chad is landlocked and relies upon only four major trade routes, two traditional routes and two other modem routes, for the circulation of products imported from or exported to neighboring countries.

The traditional routes include: (1) the 3000 kilometers across the desert connecting N'Djamena to Benghazi, Libya; and (2) the 3350 kilometers between N'Djamena and Port Sudan, Sudan. These routes are long, difficult to maneuver, and constitute a supplementary factor in the cost of commercializing products. The two modern routes come into Chad either from Lagos via the railroad line between Maiduguri, Nigeria and Koussouri, Cameroon, or from Douala, Cameroon across 1,700 kilometers of rail and road. Koussouri is connected to N'Djamena by a permanent road-bridge constructed in the mid 1980s. Previous plans included first a ferry service, then later a

pontoon bridge. A second permanent road-bridge between Cameroon and Chad is situated further south in the Mayo Kebbe Prefecture.

The use of roads and dirt tracks remains the most common choice for moving people and goods. There are no railroads in Chad. In addition, of the 4830 kilometers of the two primary rivers in the country, the Chari and the Logone, only 2000 kilometers are navigable year-round. Chad, one of the largest African nations, is two times larger than France, but has only 1260 kilometers of roads negotiable in any season out of 7000 kilometers of laterite road. The country is furrowed by 24,000 kilometers of seasonal dirt tracks along the traditional travel and trade routes. The 253 kilometers of tarmac road between N'Djamena and Abeche, which was recently carried out with French funding, had some of the highest construction costs in Africa. Travelling from N'Djamena to the Mayo Kebbe Prefecture by a Chadian interior route can take up to two weeks or more in the rainy season, but only 1.5 days if the route through Cameroon is used.

The other means of transportation in Chad is by aircraft. AirTchad infrequently serves the larger cities. Air Afrique, UTA, and Ethiopian Airlines provide regular international service. At the start of the 1990s, France committed to modernizing the airport at Faya Largeau to receive both commercial and military aircraft. The isolation of this town limits the commercial profitability of such an investment until the mineral wealth of the BET region is proven. The expense of air transport in Chad makes this mode of travel inaccessible to all but the wealthy.

With constraining transportation and communications conditions, production activities can only be carried out at a higher cost than in neighboring countries. In addition, the narrowness of the national market and the wide dispersion of the population translate into a weak demand for most goods and services and into a reduction of profit margins for businesses. Transport costs alone can annul all profit margin, already restrained by other cost factors.

3.3 Legal, Regulatory, and Judicial Constraints

The legal, regulatory, and judicial systems currently operating in Chad neither support nor facilitate the development of a dynamic private sector. Most societies are governed by laws, regulations, **and decrees elaborated over the course of centuries which support harmonious expansion.** Chad has not had the benefit of such a stable and evolutionary system to facilitate economic development.

In the current system, private sector participants lack the basic protection offered by most developed judiciary systems and, therefore, run higher business risks. Higher risk and higher cost **lead** to reduced profitability. Unfortunately, extremely profitable business opportunities which could compensate for these accrued risks are rare in Chad's present climate. The private sector is left with little choice-Chad has known very little domestic private investment.

The composition of legal constraints, of inadequacies when executing contracts, and of property rights has been more thoroughly addressed by Professor Louis Aucoin, of Boston University Law School, in a report which he prepared for the IRIS Center and USAID/Chad. Professor Aucoin undertook an exhaustive examination of Chad's different codes, laws and regulations, and their application in an official, as well as unofficial, framework. Although Professor Aucoin's observations and recommendations will be studied at length in his report, his conclusions merit mention in this synthesis report.

Chad's legal, regulatory, and judicial systems operate in an environment where the breakdown of civil society and public order has been more the rule during the past decade than the exception. Law is not the paramount force in the land-power and influence reign supreme. Military tribunals, in certain circumstances, have supplanted civilian courts, leading to the rapid erosion of the supremacy of the civil code. The destruction of many of the Ministry of Justice's records during the fighting in the 1980s is a dramatic example of the disorder which ruled in Chad. In addition, the low education level of the population accentuates the factors which permitted the neglect of the civil code. Most Chadians do not comprehend the bewildering and arbitrary application of a civil code copied from outmoded French civilcodes, regulations, and laws which were conceived to function during the colonial administration and during the first years of independence.

Only jurists or legal historians can determine what law is actually applicable in Chad. Numerous judicial gaps exist and the absence of defined roles of various judicial authorities contributes to the confusing legal situation. In addition, corrupt

practices are common, as in any country where the judicial apparatus is under-developed. Corruption is difficult to control as legal recourse is sometimes impossible. Professor Aucoin's findings indicate that the judiciary is not independent, that the judges lack the means to enforce laws and judgements, and, more generally, that they are poorly paid and do not enjoy deserved professional respect. Establishing legal title and obtaining all necessary elements to formally register a business are daunting tasks, even for the most informed, connected, and proficient Chadians.

A report by Dr. Benjamin Hardy examined in detail the procedure to register a business. Dr. Hardy proposes measures specific to simplifying this procedure including the total elimination of administrative authorization-the step which constitutes the true bottle-neck of the registration process. The system currently has twelve steps, filled with redundant requirements and steep, penalizing fees for businesses in creation. Existing laws and regulations which govern new businesses discourage aspiring businesspeople and, as a result, hinder employment creation.

3.4 Constraints to Human Capital Efficiency

3.4.1 LOW EDUCATION LEVEL

Between 1988 and 1989, Chad's adult literacy rate was estimated at 30% of the population.³⁷ Within the same period, 38% of school-age children were enrolled in school with only 30% of those enrolled actually completing the primary school program.³⁸ Enrollment in secondary schools was more or less comparable with only 7% of each eligible age-group enrolled in academic or technical programs.³⁹ The number of students pursuing higher (tertiary-level) academic study remains considerably low at 0.1% of the eligible age-group, half of whom attend schools outside of Chad.⁴⁰ The disequilibrium and the low enrollment rate are as much a consequence of population distribution as of a regionalist policy. The majority of the population is concentrated in the southern third of the country. For this reason, of the 32,000 students tabulated as being enrolled in secondary school in 1987, 30,000 are located in the southern prefectures.

The low education level of the population thus accentuates the problems posed by insufficient infrastructure in the development of Chad's private sector.

3.4.2 SCARCITY OF TRAINED LABOR

One of the immediate consequences of Chad's low education level is the lack of qualified workers and managers capable of assuming responsibilities in both the public and private sectors. Unskilled labor abounds, but this type of labor cannot compare to the value-adding potential present in a better educated labor force. Chad's underdeveloped economy fails to provide strong incentives for labor to pursue expensive training. The small formal sector provides a limited number of job

³⁷ UNDP, "Human Development Report 1992" (New York: Oxford University Press, 1992), Tables 5, 14, & 15.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ Ibid.

opportunities requiring substantial training. The minimum wage of public sector employees was \$24/month in 1988, illustrating the lack of educational incentive and discouraging the labor force from pursuing costly supplemental training programs. Employees in the public sector already suffer from late payment for their services, ranging from four to six months--such delays further affect morale and work productivity.

3.4.3 THE LABOR FORCE AND INCREASED MILITARIZATION

Chad's labor force can be broken down into the following categories: 83 % in the primary sector; 12% in the tertiary sector (including the public sector); and only 5% in the secondary sector.⁴¹ This labor force is primarily young with over 50% of the workers under 30 years of age.⁴² With a population growth rate of 2.6%, Chad's labor force will continue to rapidly expand in coming years. Creating gainful employment opportunities to satisfy the growing demand for employment poses an important challenge to the government. Unfortunately, the public sector is incapable of augmenting its employment opportunities, not even to maintain the level of jobs which have already been created. The absorption of the demand for work can only originate in the private sector. This sector will be much more effective in creating employment with encouragement, rather than penalties, from government policy.

Chad's situation worsened with the significant increase in the number of military personnel. The rising militarization in the beginning of the 1990s permitted many in the growing labor force to get their first regularly paid job. In most cases employment seekers seized the opportunity presented by incessant conflict to join the army thus contributing to the burden on the public payroll. Exact figures are not known, but the number of military personnel is estimated at 50,000. The *Secrétariat Permanent à la Réinsertion* (SPR), with the assistance of the *Coope'ration Française*, initiated a plan to cut the number of military personnel in half. This plan is being applied with mitigated success--its final effect being further increases in the number of unemployed and job-seeking workers.

⁴¹ "AFRICA, South of the Sahara," (London, England: Europa Publications, Ltd., 1992), p. 361.

⁴² UNDP/World Bank, "African Development Indicators," p.s 282-3.

This undertaking will increase the pressure to provide jobs. To maintain political stability in Chad unemployed soldiers must be successfully reabsorbed into civilian life. Reducing the army's role in politics and in the economy, while simultaneously ensuring the civilian reintegration of demobilized military personnel, is an objective which militates in favor of a voluntarist government policy promoting the private sector. Only this sector can ensure successful reintegration of disenfranchised military personnel.

IV. CONCLUSION

4.1 Institutional Reform

The private sector, government representatives, money lenders, and non-governmental organizations are all confronted with the enormous task of restructuring the national edifice. Chad has a long tradition of contested political and economic leadership with forced change surpassing peaceful transition. In light of its fragile political *structure* and turbulent history, the country must reevaluate the effectiveness of its government. The Sovereign National Conference (CNS), scheduled for mid-January 1993, is an important step in the national revitalization process. Chad's economic perspective will benefit from this conference if the CNS recognizes the diverse interests of all engaged parties. If the political will permits peaceful change, Chad's economy could gain the attention and the additional resources that it so desperately needs.

Political development is concordant with the current program designed to promote the private sector. At the May 1991 seminar, the Chadian government *proclaimed* its commitment to take steps toward improving the business climate and, more specifically, toward eliminating the difficulties and constraints of the administrative, legal, and regulatory systems that are faced by the private sector. The government also expressed its commitment to allow the private sector to function more flexibly within a framework governed by market mechanisms. This commitment was applauded and warmly supported by money lenders and private sector participants in Chad.

The primary objective of this synthesis report is to describe the general climate in which the private sector operates in order to define the opportunities and obstacles faced by private economic participants. This concluding section will review the principal obstacles and furnish a guideline for strategic reform in Chad.

4.1.1 THE LEGAL, REGULATORY, AND JUDICIAL FRAMEWORK

Beyond the numerous obstacles facing Chad's private sector, the fundamental constraint is the lack of a predictable, identifiable system of laws and regulations which is consistently and equitably enforced. Chad is a place where relationships, influence, and power determine application of existing codes depending on the circumstance.

Chad's current laws and regulations are not seemingly designed to permit sustained development and private sector revitalization. Any viable market system must be built on a foundation of predictability, stability, consistency, and universal applicability of law by all and for all. These essential factors are quasi-absent from the Chadian system. Maladapted laws inherited from the old French code are applied by judges lacking no real power to enforce legal decisions. Furthermore, many years of war have aggravated current conditions by permitting the development of a parallel, subjective legal code administered by the military and "para-military". Under this parallel system, petitioners seeking redress approach a military authority to obtain justice and reparations. It is quite possible for a verdict to be rendered by a judge based on an identifiable code or to be rendered by a military official as an arbitrary judgement. A modern market economy cannot be based on Chad's current judicial system which is too weak to guarantee consistent legal judgements.

Under the current system, private economic operators can depend neither on clear jurisdiction nor on legal consistency nor on effective law enforcement. Consequently, risks are mitigated by relationships with leading political figures and by their reciprocal patronage.

All reform must begin on the level of establishing the rule of law. Legal codes and regulations must be revised to reflect the needs of Chad's diverse society and particularly those of the private sector. Commercial and administrative laws must be clarified and promulgated, and appropriate courts must be established to enforce the law. Magistrates must have the necessary independence and authority to render justice. Only these types of reforms can serve as the foundation for efforts to develop the private sector and to allow open competition to operate normally.

4.2 FISCAL AND COMMERCIAL REFORM

To rebuild the private sector, the government must reform the tax system by striving to enlarge the tax base—that is, the number of participants who regularly pay taxes. At the same time, rates must be rationalized, not for the immediate goal of augmenting fiscal revenues but for the simplification of the entire system to make it more attractive to the taxpayer and less costly to manage. Such an objective is better to guarantee the growth of fiscal revenue by creating a program which draws in economic operators rather than pushing them into the informal sector. Proposals to this end have been made by the IMF as part of a structural adjustment program but as yet remain unimplemented.

Reform of private business registration and regulation procedures is urgently needed. Current procedures regulating the registration of new businesses are so cumbersome and costly that they usually go unheeded. In all likelihood the resulting loss of fiscal revenue is quite significant considering that more taxes discourage taxpayers. Due to the amorphous nature of their activity, businesses and economic operators that are on the periphery and that have no fiscal identity cannot be identified by the government.

Private sector participants must be encouraged to register their businesses and pay their taxes. Enlarging the fiscal pie would better ensure that everyone, rather than only one segment of the population, pays taxes. Neutralizing both the tax system and business regulations are immediate steps toward establishing a framework that encourages private sector growth.

The agricultural sector contributes the most to national production. Its weight could increase if appropriate reforms were put into place. In comparing sectoral potential, agriculture offers the most hope in terms of Chad's competitive advantage. If Chad's agricultural and piscicultural potential was realized, the country could have a more important role in regional and international trade. The exploitation of this potential national source of wealth is constrained by financial and institutional systems. The inadequacy of basic physical infrastructure should not be under-estimated—this deficiency will always limit economic activity in Chad as in all of Africa. Institutional infrastructure, however, is a constraint which can be more easily modulated by governmental actions. Export taxes on agricultural products are an illustration of a political constraint which directly diminishes the market needed to encourage increased agricultural production.

Agricultural sector restructuring must be targeted at important sub-sectors such as animal husbandry and non-traditional products like gum arabic, leather and skins, and melon. The export orientation of these products has been initiated by informed entrepreneurs. Currently, Chad's agricultural sector is essentially a monoculture with cotton bearing a preponderant weight. Its production is heavily sustained by the state and by money-lenders. The World Bank and the Mission de Coopération Française, whose support has been essential to Chad and Cotonchad, have helped to build up the cotton channel. To realize Chad's agricultural potential, the country must reduce its dependence on cotton, not by diminishing the production of this important revenue source but by augmenting the production of products that have been inadequately supported until now. For example, livestock commerce could be made more profitable by implementing programs that encourage the export of value-added products--such as meats and skins processed into diversified products--in the place of primary products--such as the live animals that are currently exported.

4.3 PROVIDING PUBLIC GOODS

Defining the exact role of the government in Chadian economic life is one of the basic changes necessary for profound private sector reform. Conforming to today's nearly universal principles of government, the role of the Chadian government should be limited to providing essential public services such as maintaining public safety, establishing and enforcing appropriate laws and regulatory codes, providing basic education, handling sovereign international affairs, correcting market failures where feasible, etc. The government certainly must disengage itself from activities where there is a conflict of interest. For this reason, the decree to disengage the state from public enterprise is a step in the right direction, although its imprecise character creates doubts about the state's resolve to implement privatization.

As a part of its educational mission, the government must enter into a partnership with professional organizations representing the interests of the private sector in order to encourage an authentic business culture in Chad. In light of the movement generally favoring private sector development, someone observing Chad's economic landscape would have the impression that numerous Chadians ignore basic economic and market principles. Many private economic operators hope that state disengagement will happen so that they will be able to enter the market, create revenues, and establish a monopoly. Free competition is not fully welcomed and market laws are little understood.